

Question 1: "In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?"

Fertilizers Europe response:

The key indicators have not changed. The carbon leakage list was based on analytical assessment by the Commission using the criteria in the Directive. Neither data nor assumptions have changed.

In the fertilizer sector there is already now concrete evidence of carbon leakage to Russia and North-Africa. In other words, indicators have not changed but effects on the fertilizer industry are even quicker and larger.

Question 2: "Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?"

Fertilizers Europe response:

No. Copenhagen failed to deliver a comprehensive, binding international agreement on combating climate change. The international play-field of the industry is no more level after Copenhagen than before it. The EU strategy in this meeting and the whole of the process simply failed.

Pledges by competitors are not really new. Even in the best possible case it would take 15-20 years before industry in competitor countries like the BRICs, North-Africa and the Middle-East would face similar costs that the EU industry will face from 2013 onwards. It is too long a time span, carbon leakage would intensify and remain unavoidable. Aligning EU's strategy and timing with the pace and efforts of competitor countries reduces the current imbalance and is considered to be one of the most important contributing factors to curb carbon leakage.

Question 3: "In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?"

Fertilizers Europe response:

The present economic downturn, the failure of Copenhagen and EU's international climate strategy, and carbon leakage already taking place, would give full reasons to revisit the unilateral 20% reduction target to make it smaller. If this is not politically realistic, the benchmarks will have a key role in safeguarding the position of energy-intensive industries. In the nitrogen fertilizer industry 95% of ammonia and nitric acid plants should buy emissions allowances already in 2013 if the 10% average rule is fully applied from the beginning. Legal flexibility and economic rationale flexibility must be

used in setting the benchmarks at a fair level and a smooth transition towards 2020 must be possible and adjustment of benchmarks must be possible if they lead to more than 21% emission reductions by 2020.

Question 4: “Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?”

Fertilizers Europe response:

Additional measures are needed. There are several options for them. Border measures should be considered against countries not participating on a satisfactory level to climate change mitigation. Trade concessions and WTO plus advantages can be removed from those countries. Global sectoral agreements can be promoted. EU should fight against dual-pricing of natural gas in competitor countries. By selling natural gas at lower, administered and subsidized prices to their industries, they worsen the competitive position of the EU industry and accelerate carbon leakage from EU to their own country.

On the other hand, border measures can possibly be avoided if the benchmarks are set in such a way that 95% of the industry will not face significant additional costs and enough time is given to reach the level of the benchmarks.